

## **COMPLIANCE SECTION**

TOWN OF LEESBURG, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2003

Federal Grantor/State Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<u>Pass-through payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grants/ Economic Development Initiative	14.246	\$ 540,841
DEPARTMENT OF TRANSPORTATION		
<u>Pass-through payments:</u>		
<u>Department of Aviation:</u>		
Airport Improvement Program	20.106	550,146
<u>Department of Motor Vehicles:</u>		
State and Community Highway Safety	20.600	10,381
NATIONAL PARK SERVICE		
<u>Pass-through payments:</u>		
<u>Department of the Interior:</u>		
Historic Preservation Fund Grants-In-Aid	15.904	15,500
DEPARTMENT OF HOMELAND SECURITY		
<u>Pass-through payments:</u>		
<u>Department of Emergency Services:</u>		
Public Assistance Grant	97.036	66,637
OFFICE OF JUSTICE PROGRAMS BUREAU OF JUSTICE ASSISTANCE		
<u>Pass-through payments:</u>		
<u>Department of Justice:</u>		
Local Law Enforcement Block Grants Program	16.592	113,478
<u>County of Loudoun:</u>		
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	216,843
<b>Total Federal Awards Expended</b>		<u><u>\$ 1,513,826</u></u>

## TOWN OF LEESBURG, VIRGINIA

### NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

---

#### **Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Leesburg, Virginia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

*Federal Financial Assistance* – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

*Pass-through Payments* – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

*Major Programs* – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the Town of Leesburg, Virginia were determined using a risk-based approach in accordance with OMB Circular A-133.

*Catalog of Federal Domestic Assistance* – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

#### **Note 2. Assistance Provided to Subrecipients**

The Town of Leesburg disbursed pass-through funds to the George C. Marshall Home Preservation Fund as a subrecipient. The federal funds were from the Department of Housing and Urban Development through the Economic Development Initiative in the amount of \$540,841.





Mensel D. Dean  
Gregory W. Geisert  
Herman W. Hale  
John L. Vincie, III  
Keith L. Wampler  
Daniel B. Martin  
Sean R. O'Connell  
Kevin D. Humphries  
Bradford R. Jones  
Virginia B. Miller  
John E. Zigler, Jr.  
Michael T. Kennison

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of Council  
Town of Leesburg  
Leesburg, Virginia

We have audited the basic financial statements of the Town of Leesburg, Virginia, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Compliance

As part of obtaining reasonable assurance about whether the Town of Leesburg, Virginia's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed tests of compliance with the following program specific requirements as set forth in the Auditor of Public Accounts *Specifications for Audits of Counties, Cities and Towns*: the Virginia Department of Transportation's Requirements for Highway Maintenance Funds. However, providing an opinion on compliance with those provisions and specifications was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Leesburg, Virginia's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town of Leesburg, Virginia in a separate letter dated October 2, 2003.

This report is intended for the information of the Town Council, management, the Auditor of Public Accounts and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
October 2, 2003

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of Council  
Town of Leesburg  
Leesburg, Virginia

Compliance

We have audited the compliance of the Town of Leesburg, Virginia, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2003. The Town of Leesburg's major Federal programs are identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Town of Leesburg's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

As described in item 03-2 in the accompanying Schedule of Findings and Questioned Costs, the Town of Leesburg, Virginia did not comply with requirements regarding allowable costs and cash management that are applicable to its Economic Development Initiative. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town of Leesburg, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2003.

### Internal Control Over Compliance

The management of the Town of Leesburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Town's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the Town Council, management, and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*PBGH, LLP*

Harrisonburg, Virginia  
October 2, 2003



## TOWN OF LEESBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2003**

## 1. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

## Financial Statements:

Type of auditor's report issued: Unqualified

## Internal control over financial reporting:

Material weaknesses identified	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable conditions identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

## Federal awards:

## Internal control over major programs:

Material weaknesses identified	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable conditions identified that are not considered to be material weaknesses	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
--------------------------------------------------------------------------------------------------------------------------	-----------------------------------------	-----------------------------

## TOWN OF LEESBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2003**

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program
14.246	Community Development Block Grant – Economic Development Initiative

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes ☒ No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

A. Reportable Conditions in Internal Control

None Reported

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

03-1 OMB Circular A-133 Subpart C, Section 300(c) states that, "the auditee shall identify in its accounts, all Federal awards received and expended and the Federal Programs under which they were received." A listing of Federal Programs was not available upon request and required significant assistance to produce an accurate listing. Our recommendation is to assign an individual to oversee all Federal Programs for which the Town receives federal funds and reconcile the receipts and expenditures for each program on a quarterly basis.

TOWN OF LEESBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2003**

03-2            14.246 Community Development Block Grant – Economic Development Initiative requirements set forth in the grant application and agreement the following requirements for projects involving construction:

- (1)    Ensure that the draw down of grant funds allocated for construction costs will be at a rate not to exceed the percentage of project completion.
- (2)    Ensure that 10 percent of payments for projects costs will be withheld from the construction contractor pending completion.

Based on our review of the application for payment submitted by the contractor and certified by the engineer, no retainage was withheld on the construction contract. In addition, the draw down of grant funds were based on 100 percent of the application for payment resulting in the entire grant being expended while the construction project was approximately 50 percent complete. The above resulted in advanced draw downs of federal funds in excess of allowable cost of approximately \$352,000.

We recommend that the Town designate a qualified person to oversee all federal grants. The individual would be responsible to determine compliance requirements prior to the final approval of all grants and ensure that the individuals responsible for the Federal program are aware of and in compliance with all requirements for the duration of each program.

**TOWN OF LEESBURG, VIRGINIA**

**CORRECTIVE ACTION PLAN  
Year Ended June 30, 2003**

- 03-01 The finance department will reconcile the quarterly state disbursement reports provided by the Virginia Auditor of Public Accounts with the general ledger to correctly identify federal and state revenues and expenditures in order to comply with the requirements of each individual grant.
- 03-02 For future grants, a staff member will be assigned to review OMB Circular A-133 and the compliance supplement in order to determine the compliance requirements associated with each grant.

**TOWN OF LEESBURG, VIRGINIA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2003**

There were no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audit's Summary Schedule of Prior Audit Findings.

